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Press note on State finances

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With the laying of annual accounts in the State Legislature and the presentation of the Budget for the financial year 2022-23, the opposition parties and their affiliated media houses have been making allegations about issues such as borrowings of PSUs, State's utilization of the WMA limit and the State's capital expenditure and so forth. To provide clarity on some of the issues, I convey the following.

Borrowings by PSUs

Article 293(1) of the Constitution of India confers two types of power on a State Government. One to borrow on the security of the Consolidated Fund of the State and the other to the giving of guarantees. However, as per the Constitution that the borrowings, providing guarantees should be within the limit stipulated by the State Legislature. The State Legislature enacted the FRBM law and therein the limits are stipulated. If the State borrows or provides guarantees within those limits, then the same is not unconstitutional. Identical power is also conferred by the Constitution on the Government of India, in accordance with the Article 292. The power of the State to borrow under Article 293(1) is subject to consent from Government of India but the giving of guarantees does not require any consent from the Union Government. Therefore, to say that the public sector undertakings raising loans with them being guaranteed by the State Government cannot be referred to as a Constitutional violation.

Attempts are being made to create fear in the minds of the bankers and other lenders by making irresponsible allegations that providing loans to PSUs is unconstitutional and a crime. It is to be borne in mind that PSUs availing debt is not in violation of any of the provisions of the Companies Act and State providing guarantees as long as it is within the limits prescribed under applicable legislation is not unconstitutional. Further, if the lender makes a fair assessment of cash flows available for servicing the debt and adequacy of the security structure of the transaction and provides a loan to the PSU, it is in no way a violation of any of the RBI guidelines. Further, PSUs belonging to other States are also availing debt on the basis of guarantee given by their State. For instance, as per the budget presented recently, the debt in the books of PSUs secured by the Telangana State Government is to the tune of Rs. 1,35,282.51 crores. Further, several Government of India held

public sector undertakings have raised debt secured by the guarantee from Government of India. Entities such as Food Corporation of India, MTNL, BSNL and AIAHL have raised debt by issuing Government of India guaranteed bonds. If the mere fact of PSU raising debt on the strength of the guarantee by the respective Government itself warrants an enquiry, should all the above the issuances by various States PSUs and Central PSUs be also enquired into?

Further, with respect to the State Government guaranteed loans availed by PSUs of AP State, attempts are being made to hoodwink the people of the State into believing that the entire outstanding PSU borrowings of the State are resulting from the actions of the present Government. Today's article in a newspaper carries the PSU wise debt implying that the huge borrowings in the books is resultant from the excesses of the present Government. The truth is far from it. The total debt in the books of the State PSUs, assigned to the successor State of Andhra Pradesh and enjoying guarantee from the State Government at the time of the State bifurcation is to the tune of Rs. 14,028.22 crores. The same has, over the period 2014-19, increased to a whopping Rs. 63,644.64 crores. The details of the guarantees provided over a period of time are conveyed in the subsequent page.

As can be seen from the table, the off-budget borrowings have increased by more than 4.5 times during the period 2014-19. Entities such as the civil supplies corporation have contracted debt to the tune of Rs. 20,000 crores over the five year period. Therefore, the dubious intent of the opposition parties and their affiliated media houses to mislead the people of the State that the present Government policies are leading to an unchecked increase in off-budget borrowings, is apparent. The former finance minister, Sri Yanamala Ramakrishnu garu, makes a wrong allegation that the present Government is availing off budget borrowings to the tune of Rs. 1,00,000 crores every year. Over the last three year, the outstanding State Government guaranteed PSU debt has increased from Rs 63,664.64 crores to Rs. 1,17,503 crores, even after including borrowings which are guaranteed only on conditional basis, and not crystalized as on date. Sri Yanamala Ramakrishnu garu, during whose tenure, the off-budget borrowings have increased by more than 450%, now comments that off-budget borrowings are not desirable and indicate the financial distress prevailing in the State.

Off - budget borrowing with State Government guarantee		
Name of the Corporation	At the time of bifurcation	Outstanding as of May 2019
AP Civil Supplies Corpn	-	20,000.00
AP Power Finance Corpn	2,384.96	6,500.00
APWRDC	-	4,000.00
AP DISCOMS	-	2,250.00
AP TIDCO	-	5,301.59
APCRDA	-	3,862.00
AP State Housing Corpn.	-	2,042.50
AP RDC	-	3,000.00
APIIC	292.00	2,000.00
APSRTC	640.95	2,500.00
AP GENCO	2,255.24	4,387.33
AP Beverages Corporation	-	-
Rythu Sadhikara Samstha	-	2,000.00
AP Drinking Water	-	980.00
Nellore Municipal Corpn	-	830.00
Bhogapuram	-	824.44
AP Power Development Company Ltd	-	
AP State Seed Development Corporation	-	
AP State Finance Corpn.	574.20	414.70
AP Fibernet	-	300.00
AP MARKFED	309.99	
Orvakal & Dagadathi	-	200.00
Director of Sugar and Cane	-	200.00
AP State Warehousing Corporation	119.55	178.85
Vijayawada Municipal Corporation	-	100.00
Tirupati Municipal Corporation	-	85.00
AP TRANSCO	6,688.43	350.00
AP SC Finance Corpn	-	705.26
APUFIDC	-	632.97
Others	762.91	-
Total	14,028.23	63,644.64

Further, the liabilities in the books of the PSUs in power sector, the increase over these five year period is as follows, it is to be borne in mind that this increase in liabilities is even after the implementation of UDAY scheme, wherein a portion of the debt of the distribution utilities has been taken over by the Government.

Liabilities in the books of power companies (all figures in INR Crores)		
Particulars	As of 2014	As of 2019 (at the end of the term of previous Govt.)
APGENCO (along with APPDCL)	15712.32	40750.89
APSPDCL	7140.32	14336.15
APEPDCL	4159.15	5448.40
APTRANSO	2691.25	8060.83
Total Liabilities	29703.04	68596.27
Other than State Government guaranteed Debt	18374.41	55108.94

The TDP is also making baseless allegations that the present Government is withholding information as to its liabilities. In this regard, it is be submitted, that in the same way as it was during the TDP Government, the necessary disclosures are being made. The public debt and public account outstanding details are part of the annual accounts released. The outstanding guarantees issued by the State Government are provided as part of Volume – V of the budget documents and debt in PSUs that have secured it without Government guarantees are reflected as part of their annual reports and other filings. This is the same manner in which, even the Central Government and various State Governments reflect the liabilities.

A news paper article has reported that the total outstanding liabilities as on date are to tune of Rs. 6,26,836 crores. This is an unsubstantiated number and has no basis. The article says that the outstanding public debt and public account is to the tune of Rs. 4,13,000 crores, however, officially released estimate by the State finance department is Rs. 3,90,670.19 crores. Further the article speaks of State Government guaranteed PSU debt to be Rs. 1,38,603.58 crores, however the details of the debt outstanding in the books of PSUs guaranteed by the State Government, as released by the State Government in accordance with FRBM rules is, 1,17,503.08 crores. With respect to other figures such as non-Government guaranteed debt in PSUs, no official release has been made to that effect owing to the fact the financial year will come to close tomorrow and then the finalization of accounts and audit procedure will take at least a month before the actual figures are known. Therefore, the figures of Rs. 75,233 crores is not based on any official information. However, even if we consider the same number, the increase in liabilities during the present Government, when compared with the previous Government is as follows,

Increase in liabilities (all figures in INR Crores)			
Particulars	as at the time of bifurcation in 2014	As of 2019 (at the end of the term of previous Govt.	As of March, 2022
Public debt and Public account	120556.00	268115.00	390610.19
Debt in PSUs guaranteed by the State Government	14028.23	63644.64	117503.08
Debt in PSUs other than guaranteed debt*	18374.41	55108.94	75233.00*
Total State Liabilities (including Contingent and Direct and other PSU's)	152958.64	386868.58	583346.27
Absolute increase		152.92%	50.79%
CAGR over the periods of TDP Government and present Government		20.39%	15.46%
<i>* note - the outstanding debt in the books of PSUs not guaranteed by State assumed is Rs. 75,233 crores is not as per official information and based on the newspaper article as described</i>			

Therefore, the increase in liabilities during the TDP Government period is at a way higher rate at 20.39% and when compared with that, the increase in liabilities during the period of the present Government and these were times of excruciating difficulties. One year of economic downturn and two consecutive years of the outbreak of Covid-19 pandemic have impaired the public finances across the globe.

In fact, the TDP is making allegations is making allegations that Capital expenditure of the present Government is inadequate. The former finance Minister alleged that the ratio of revenue deficit to fiscal deficit is rising. I submit that, last three years were times of unprecedented difficulties. There was a huge fall in State's revenues and a substantial increase in the requirement for public expenditure. It is owing to this reason that across the globe, the investment rate has come down significantly during the last three years. The (GFCF) Gross Fixed Capital Formation is generally regarded as the investment taking place in the economy. The details in the below table show the manner in which, GFCF has demonstrated a negative growth rate recently.

During the last decade, except during the last two years, during every other year, the investment (GFCF) growth was above 10%. During FY 2020-21 the investment even registered a negative growth rate.

Component of GDP (all figures in INR Crores)								
FY	PFCE	Growth %	GFCE	Growth %	GFCF	Growth %	GDP	Growth %
2011-12	49,10,447		9,68,375		29,97,733		87,36,329	
2012-13	56,14,485	14.34%	10,62,404	9.71%	33,24,973	10.92%	99,44,013	13.82%
2013-14	64,75,650	15.34%	11,56,509	8.86%	35,15,621	5.73%	1,12,33,522	12.97%
2014-15	72,47,340	11.92%	13,01,762	12.56%	37,50,392	6.68%	1,24,67,959	10.99%
2015-16	81,26,408	12.13%	14,36,171	10.33%	39,57,092	5.51%	1,37,71,874	10.46%
2016-17	91,26,533	12.31%	15,86,658	10.48%	43,38,671	9.64%	1,53,91,669	11.76%
2017-18	1,00,36,153	9.97%	18,40,119	15.97%	48,15,601	10.99%	1,70,90,042	11.03%
2018-19 (TRE)	1,12,05,296	11.65%	20,45,552	11.16%	55,68,422	15.63%	1,88,99,668	10.59%
2019-20 (SRE)	1,22,37,111	9.21%	22,00,871	7.59%	57,37,645	3.04%	2,00,74,856	6.22%
2020-21 (FRE)	1,20,32,762	-1.67%	23,93,290	8.74%	52,64,073	-8.25%	1,98,00,914	-1.36%

PFCE - Private Final Consumption Expenditure, GFCE - Government Final Consumption Expenditure, GFCF - Gross Fixed Capital Formation

Therefore, before making allegations about the capital or revenue nature of the expenditure, the context and the prevailing circumstances are to be borne in mind. In fact, it is owing to the determination of Hon'ble Chief Minister, Sri Y.S.Jagan Mohan Reddy garu, even during these difficult times, money has been placed directly in the hands of the people through DBT in the utmost transparent manner, thereby ensuring that the rural consumption, demand and investment do not take a nosedive. This has resulted in the State's economy demonstrating greater resilience. In fact, it would not be out of place to mention that, owing to the proactive steps taken by the present Government, the State's contribution to the Nation's GDP has increased significantly. The below table conveys the details.

Economy Comparison (all figures in INR Cr.)				
FY	Indian GDP	AP GDP	% Contribution from State	Avg. Contribution
2014-15	1,24,67,959	5,24,976	4.21%	4.45%
2015-16	1,37,71,874	6,04,229	4.39%	
2016-17	1,53,91,669	6,84,416	4.45%	
2017-18	1,70,90,042	7,86,135	4.60%	
2018-19	1,88,99,668	8,73,721	4.62%	
2019-20	2,00,74,856	9,66,099	4.81%	5.01%
2020-21	1,98,00,914	10,14,374	5.12%	
2021-22	2,36,43,875	12,01,736	5.08%	

Source - MOSPI, GOI

Ways and means advances

The Reserve Bank of India formulates and releases the WMA scheme. As per section 5 of the Central FRBM Act, 2003 and section 17(5) of the Reserve Bank of India Act, 1934, the RBI can make only short term advances to Central and State Governments. There are three components of this WMA scheme. The SDF (Special Drawing Facility), Ways and Means advance and Overdraft facility. SDF is against increased investment of the State Government in Central Government securities and some funds such as CSF and GRF. The facilities of WMA and OD are over and above that. The advantage associated with these facilities is the low interest rate. Even at a time when the yield of 10 year G-sec is as high as 7%, the rate at which SDF is available is REPO minus 1% (current rate is 3%). The interest rate on WMA is REPO rate (current rate is 4%) and the interest rate on OD facility is REPO rate plus 2% (current rate is 6%). Therefore, in the event of temporary cash flow requirement, it would be very advantageous to avail of this facility legitimately available for the Union Government and all the State Governments.

Sri Yanamala Ramakrishunudu garu has alleged that, the State Government has overused the facility and that this indicates the distress prevailing in the State. In this regard, it is to be pointed out that the No. of days on which the State was in OD during FY 2020-21 is 103 days. This is what is referred to by the previous Finance Minister. RBI stipulates that number of days during which, a State Government can be in OD during a quarter of the year. The RBI has originally stipulated the limit of 36 days. Therefore, a State Government can be OD for 36 days during a quarter. However, owing to the financial disruption caused due to the outbreak of the Covid-19 pandemic, the RBI has reviewed the situation and enhanced the no. of permitted OD days to 50 days per quarter. However, even at time when this relaxation was not there, during the year 2018-19 the previous Government has been on OD for 107 days.

Utilization of overdraft facility		
Particulars	2018-19	2020-21
RBI permitted no. of days	144	200
No. of days during which the State was in OD	107	103
% of utilization	74.31%	51.50%

Therefore, it can be observed that the TDP Government used the facility to a greater extent even during times of absolutely no stress and are now making allegations against the present Government that has used this facility only to a lesser extent even during these times of overwhelming odds.

Observations of CAG

In the annual accounts that were tabled in the Legislature, the CAG observation was as follows,

*On the basis of the information and explanations that my officers required and have obtained, and according to the best of my information as a result of test audit of the accounts and on consideration of explanations given, I certify that, **except for the effects of the matter described in the Basis for Qualified Opinion**, the Finance Accounts read with the Explanatory Notes to Accounts to the best of my knowledge and belief, **give a true and fair view of the financial position**, and the receipts and disbursements of the Government of Andhra Pradesh for the year 2020-21.*

The portion referred to, has to do with certain adjustments carried on. The State Finance department has provided a detailed explanation in this regard conveying the nature of the expenditure. The stated amount of Rs. 48,384 crores were majorly in the form of adjustments and of that amount, only 224.73 crores are in the nature of cash transactions and the remaining are only in the nature of adjustments. The CFMS system is still in the process of development and stabilization as some of the modules are yet to be developed and owing to the need to prevent any delay in finalization of accounts, some adjustment entries were carried. The nature of each entry was described in the detail and placed in public domain by the Finance Ministry of the State.

The opposition parties are trying to mislead the people into believing that the amount of 48,384 crores have been siphoned off. This is totally untrue.

Similar comments have been made by CAG in a prior year also. The CAG audit report for the financial year 2015-16, conveys as follows,

Once the budget has been allocated to some service, amounts can be transferred to a Personal Deposit Account for ensuring its uninterrupted progress. But the idea of allocation of money with a view to transferring the same to a personal deposit account without even conceiving a project does not conform to the intention and spirit of the rules. During the year 2015-16, 14,721 new Personal Deposit Accounts were opened without closing even a single account for which reasons were not forthcoming from the records/information made available to audit. Though payments of Rs. 41,001.13 crore were made from 42,999 Personal Deposit accounts, there was no proper mechanism to watch authenticity of expenditure incurred. There was no separate procedure to watch the amounts kept outside the Public account i.e. funds diverted to other bank accounts except verification during

internal audit of District Treasury Officers/Sub Treasury Officers. This indicated lack of exercise of controls and deficiencies in financial monitoring system.

The CAG report conveys that with respect to payments of Rs. 41,001 crores made through PD accounts, there were no means to examine the authenticity of the expenditure. However, the same media houses who are making allegations against the Government now did not make bother to convey that Rs. 41,000 crores have been misappropriated during FY 2015-16.